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C O N F I D E N T I A L SECTION 01 OF 05 SANTO DOMINGO 005952

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DEPT FOR WHA, WHA/CAR, WHA/EPSC, WHA/OAS; EB, EB/IFD/OMA,
EB/TPP/BTA;
WHITE HOUSE FOR USTR; NSC FOR SHANNON AND MADISON
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TAGS: [ETRD](#) [PGOV](#) [EFIN](#) [DR](#)

SUBJECT: DOMINICAN PRESIDENT ON CORRUPTION, FREE TRADE
AGREEMENT, REGIONAL POLITICS, FINANCES

REF: SANTO DOMINGO 5779

Classified By: Ambassador Hans H Hertell. Reason: 1.4 (a) and (d).

[11.](#) (C) Summary. Dominican President Fernandez asked on October 21 for USG help in addressing corruption issues. He told the Ambassador that he remains strongly in favor of the free trade agreement (FTA). He gave the sugar sector an opportunity of "only three weeks" (until sometime the week of October 25) to use his letter to President Bush to seek review of their complaints. A day later Foreign Minister Morales Troncos said Fernandez would choose one of several domestic approaches to persuade sugar interests to drop their opposition to the FTA. Fernandez is seeking support for former president of El Salvador Francisco Flores for the post of OAS Secretary General. Dominicans were about to sign a deal in which Venezuela will provide long-term financing for 25 percent of the value of petroleum purchases. Fernandez sought USG help to design action plans to fight corruption and illegal narcotics. End summary.

Anti-Corruption: the Original Purpose of the Meeting

[12.](#) (C) During a lengthy meeting with the Ambassador and senior staff on October 21 Dominican President Fernandez touched on free trade, security issues, and the effort to choose a new OAS Secretary General. He had convened the meeting to address the general problem of corruption. The President discussed at length his analysis of the culture of corruption in the Dominican Republic, including contributing factors, and asked for USAID help in reinforcing administrative systems, putting together a public outreach effort, and putting together an action plan to address the problem. He asked USAID Director Elena Brineman to work closely with presidential chief of staff Danilo Medina, since Medina coordinates cabinet efforts on institutional reform.

[13.](#) (C) When the Ambassador raised the issue of the well-known military practice of skimming 10 percent or more on contracts, Fernandez replied: "That goes beyond my ability to intervene. If a Latin American president interferes seriously with those types of military matters, he risks getting shot." Fernandez said that his decree retiring 99 generals within the first month of the administration had already caused him difficulties. His intelligence services had told him of threats of assassination. He said he believes that the recent violence may be due in part by agitation by forces hostile to him.

Crime

[14.](#) (C) Fernandez spoke of his concern about the spread of narcotics and associated violence, attributed to flows from Colombia and Haiti. The border area had become a "no man's land, like Eritrea or Bangladesh, or another galaxy entirely. Seizures had not increased even though trafficking had. Worst affected by associated violence were the very poorest Dominicans. Fernandez suggested that he might ask attorney "Vinchito" Castillo to take a newly created post as Advisor for Anti-Narcotics and Anti-Gangs.

[15.](#) (C) The Ambassador expressed strong misgivings about Castillo (see reftel), recalling repeated recent accusations from "Vinchito" that the Ambassador and U.S. government had been improperly intervening in the prosecution of Ramon Baez, charged of massive fraud in the 2003 Baninter failure. U.S. agencies would have to discuss the matter; his initial response was that for such an important post the USG would need a person not only knowledgeable but also willing to work with the Embassy. The President did not insist on Castillo and asked for suggestions of names of candidates with whom the Embassy could work.

[16.](#) (C) In this connection Fernandez recalled the case of Guido Gomez Mazara, legal advisor to Hipolito Mejia. The administration is watching Gomez closely, he said, and Fernandez knows that the Embassy's refusal to work with him

was justified. Gomez is provocative and immature, he commented, and he does have links with the underworld.

Brooke/620Q Arrears and USG sanctions

17. (C) The Ambassador advised the President that as of October 15 the Dominican Republic is more than one year in arrears on certain bilateral debt payments, a situation which under U.S. law is the basis for suspension of most bilateral assistance programs. The Embassy notified Technical Secretary Temistocles Montas of this in writing on October

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18, providing a detail of unpaid payments triggering arrears.

The cumulative amount through the end of 2004 will be approximately USD 23 million. Fernandez was dismayed and said he would consult with the Technical Secretary.

"I'll Go 100 Percent to Keep DR in CAFTA"

18. (C) When the Ambassador raised with Fernandez the lack of congressional response to the President's request to repeal the 25 percent protectionist tax on fructose-sweetened drinks, Fernandez reaffirmed his intention to overcome sugar sector opposition.

19. (C) The Ambassador began by describing to the President Washington's great concern that the 25 percent tax had not yet been repealed. All knew this tax was a tactic used by the Dominican sugar interests to preserve their privileged position in the economy, dating back 450 years. The Ambassador warned the president that it was a losers' initiative -- akin to a protectionist measure barring computers as a means of protecting, say, typewriters. Worse, the uncertainty about Dominican intentions caused postponement of a CAFTA-DR ministerial meeting on the environment and now meant that the country is not included in other activities designed to prepare for CAFTA coordination and implementation, such as some trade capacity building programs. The challenge to Fernandez was how to turn this situation around and show leadership. When, he asked, was the last time before August that the Dominican Republic had signed an agreement at the White House?

110. (C) Fernandez replied emphatically, in English, "You don't have to convince me. You are preaching to the converted." He acknowledged making a mistake of inattention in sending the repeal proposal to the Senate, where the tax package had just been approved despite sharp debate over the 25 percent tax. (Senate President Andres) "Bautista does not control the Senate on this issue. (Sugar concern) Central Romana has it blocked. They and their Washington lawyers are telling senators that Congress has until March to reconsider."

111. (C) The Ambassador strongly dismissed that interpretation. Fernandez continued, "I gave them three weeks -- told them that I would not back them, but I would sign their letter, so they could try one last effort to have their case heard, but that three weeks runs out next week." He outlined the sector representatives' argument that they'd been excluded in the last hours of negotiations, despite earlier assurances that sugar would not be included in the agreement. "The U.S. should have the flexibility at least to listen to them -- not to make any promises, but at least to listen." He warned that sugar interests were moneyed and powerful -- employing "the man with the suitcase" (bribery) to influence congressmen.

112. (C) The Ambassador stressed that the U.S. interest is exactly the same as Fernandez's and the same as that of the Dominican Republic. Fernandez replied, "I know that. My position has not changed. I said it in Santiago -- I will not allow the interests of the country as a whole to be held hostage to a single sector. But this is a democracy, and I am president of the whole country. I cannot simply exclude the sugar interests. All I am asking is for them to be given an opportunity to present their case. That would not endanger the agreement. They are saying that a technical error was made. I will reactivate our efforts next week. There is no ambiguity or ambivalence in my view. I will defend the free trade agreement and serve as a channel of communication. That is what a president should do."

113. (C) The DCM commented that the Embassy had heard the sugar sector's arguments, which held nothing new; USTR's account of the talks differed from their allegations. The Ambassador stressed that the sides had spent more than 18 months mutually clarifying views. "Listening is important," replied the President. "If one doesn't listen, the people will go into the streets."

114. (C) The Ambassador challenged him: "How far would you be willing to go to save this agreement?" Fernandez replied, "One hundred percent. This is the top priority for the country and for the government. Sara Lee Corporation called

on me -- they told me they were holding up an investment of USD 80 million because of the uncertainty about the agreement. And how can we obtain technology transfers without an agreement? If you know, tell me!" He said that lawyers for Central Romana were saying that USTR Zoellick would be leaving in January and was no longer part of the equation.

15. (C) "The best for your country," said the Ambassador, "would be to seize the moment and ratify now. Get ahead of the Central Americans." Fernandez replied that in a democracy, a leader cannot do just what he likes; he first must lead public opinion.

OAS Secretary General

16. (C) Reviewing the search underway for a new OAS secretary general, President Fernandez said that he had told

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Francisco Flores of El Salvador to visit the CARICOM countries for support. Fernandez had already spoken to several CARICOM heads of state or government on his behalf. CARICOM will meet in November. Venezuela was violently anti-Flores, he commented, because Flores had recognized Carmona in the short-lived overthrow of the Chavez government. Venezuela was pressing the CARICOM states, but the Venezuelans had not approached the Dominicans on the subject.

17. (C) Brazilian ex-president Cardoso might be a candidate, said Fernandez, although Brazil had recently held the Secretary General position; and perhaps "Lula" might like to

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have Cardoso out of the country. Fernandez's second choice, after Flores, would be Insulza of Chile, who was prestigious, a known academic, and former foreign minister. Fernandez considers that Central America, as a block, will not support Flores because of border differences with Honduras.

18. (C) As for Flores, Fernandez knows him well, considers him a good candidate, serious and intelligent.

IMF and IFIs

19. (C) Fernandez expects to sign a letter of intention with the IMF in November. "Then," he said, "It will be like dominos, each one falling into place -- the IMF, the Paris Club, and the rescheduling of the sovereign bonds." Bondholders have already formed a committee, with the assistance of Morgan Stanley. Venezuela will provide long-term financing for 25 percent of petroleum sales, an arrangement that will help meet the problems in the electricity sector.

20. (C) As for electricity, he said, contracts with generators must be reviewed and revised. He spoke with some annoyance about the continuing obligation to pay COGENTRIX some "USD 5 million a month" whether or not it was generating. He has asked for contractors to do a study of the prices of electricity generation across Latin America; he says that due to bad contracts, the Dominican Republic faces higher rates than anywhere else in the hemisphere. He is well aware that the COGENTRIX financing package is structured so that default by the government would trigger up to USD 400 million in sovereign loan guarantees.

21. (C) USAID Director Brineman mentioned the plan for the electricity sector currently in development, shortly to go to Fernandez. "We need to find USD 20 million a month, just to survive," the President commented. "Tariff rates cannot go up; that would just encourage more theft and evasion. Generators say, 'raise the tariffs' -- we need to restructure the grid." Fernandez finds that the eastern region (EDESTE) has excess capacity, while the north (EDENORTE) is underserved by "monopoly" Smith and Enron near Puerto Plata, which "charges for 180 megawatts, even though they don't produce more than 135 megawatts." Fernandez said he is very interested in getting a brief on the USAID plan -- "because USAID is the most independent advisor we have."

22. (C) The cooking gas supply situation is acceptable, Fernandez said. Subsidies have been reduced by 3 percent so far by eliminating subsidies on deliveries to industry. The cut should be 25 percent, said Fernandez, as we work our way through the chain and target them correctly. The project to issue cards to qualified household consumers is moving and wide distribution should be underway by December, with the prospect of finishing it by March.

23. (C) Fernandez said that further possibilities to help restructure the electricity sector could include the two new coal-fired generating plants available in Houston. Mergers of distribution companies might be a possibility, and there are three pilot projects now for wind-powered generation.

COMMENT

124. (C) Fernandez was solo as he met the Ambassador, DCM, USAID Director and EcoPol counselor. At one point he stepped out of the room to get a pad with which to make notes. As always, he was thoughtful, well spoken, and conceptual in his approach. He left some stark uncertainties, however -- not specifying, for example, just what he intends to do to promote the free trade agreement once the apparently arbitrary three-week delay for sugar action is finished. He described the sugar sector's ability to block but did not suggest how this could be overcome. (The next day in conversation with the Ambassador, Foreign Minister Carlos Morales Troncoso, himself an ally of the sector, suggested that there were "three approaches, all domestic" that might persuade sugar interests to drop their opposition to repealing the protectionist tax. Morales declined the Ambassador's invitation to be more specific.)

HERTELL